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SUBJECT: SPECIAL ENVOY MORNINGSTAR DISCUSSES EU ENERGY SECURITY

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¶1. (SBU) Summary. On April 22-23 Special Envoy for Eurasian Energy Richard Morningstar met with EU and industry officials to discuss U.S.-EU cooperation on energy security. In these meetings, Ambassador Morningstar gave his European counterparts an overview of the Administration's Eurasian energy policy, and emphasized the need for the U.S. and the EU to work closely to ensure Europe's energy security. His visit was warmly welcomed by EU officials who also called for closer coordination with Washington on energy policy. The discussions were wide ranging covering all aspects of Europe's energy security including liberalizing Europe's internal market for electricity and gas as well as external relations with producer and transit states. A common theme in these meetings was the EU's desire for the U.S. to encourage Turkey to move forward on gas transit negotiations.

Joao de Vale Almeida, EU President Barroso's Chef de Cabinet, and Ambassador Morningstar discussed the possibility of establishing some form of meaningful high-level U.S.-EU dialog on climate and energy and agreed to talk more in the future to further pursue these ideas. End Summary.

¶2. (SBU) On April 22-23 Special Envoy for Eurasian Energy Richard Morningstar met with EU and industry officials to discuss U.S.-EU cooperation on energy security. In these sessions, Ambassador Morningstar told the Europeans that the U.S. is in the process of relooking at our policies on energy security. He stressed that the new Administration believes the U.S. should take a balanced approach on energy security. He made the case that the various gas pipeline projects are very important parts of a jig saw puzzle -- Nabucco is part of the puzzle and is important, but not the Holy Grail. He argued it is also important to look at interconnecting the EU's internal market, building new European LNG facilities, and promoting the use of Nuclear energy for some countries. Ambassador Morningstar also underlined that the U.S. sees a direct relationship between energy and climate change.

¶3. (SBU) On Russia, Ambassador Morningstar stressed that the U.S. is not looking to have an openly confrontational policy. He told EU officials that it is important to stand up to Russia when they use strong-arm tactics, but that we also need to engage with them when possible. He argued the U.S. and the EU should look at the possibilities for "win-win" energy security projects where we can work with Russia as partners -- where Russia can be part of the solution rather than the problem.

EXTERNAL RELATIONS COMMISSIONER FERRERO-WALNDER

¶4. (SBU) On April 22, Ambassador Morningstar met with Benita Ferrero-Waldner, EU Commissioner for External Relations. Commissioner Ferrero-Waldner began the meeting by noting that the Southern Corridor is a common issue of great importance to the U.S. and the EU. She said it is important for the U.S. and EU to work together to identify where the most important problems lie. In her view Azerbaijan, Turkmenistan, and the EU are ready to commit to the Southern Corridor, but Turkey is not ready. Ferrero-Waldner stressed that "We have a problem on Turkey." She said the greatest help the U.S. could give to the EU on this subject would be getting Turkey to agree on gas transit. She argued that Turkey has to see the realities and that Turkey is in danger of playing its cards too strongly. She said that Turkey has a great opportunity at the Prague Summit to show it can be part of the solution by signing the Nabucco intergovernmental agreement (IGA). That, she said, would open up a lot of things and make it easier for EU Member States to reciprocate on accession issues.

¶5. (SBU) Ambassador Morningstar pointed out that we've seen this vicious circle for some time. Turkey doesn't believe the EU is serious so they do something provocative; the EU sees this and says "why do we bother?" Ferrero-Waldner said that it will take time, but that she is optimistic Turkey will eventually be part of the EU. She argued that Turkey will get a huge benefit out of a gas transit solution, but that "this is the moment when they have to show their commitment." She said Turkey has to understand that there is a real alternative to take gas directly across the Black Sea and bypass Turkey. She argued that Turkey's interests are

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more inline with the EU than with other regional players and that it is important to show Turkey that their own interests lie with Europe.

¶6. (SBU) Commissioner Ferrero-Waldner characterized Russia's recent actions in the Caspian region as very good for EU interests. She argued Russia's actions in the region are just pushing the Caspian countries towards Europe. She said the award of an offshore Turkmenistan exploration block to Germany's RWE is a very positive sign. She also said that despite opposition from Russia, the Prague Summit is going forward and EU Member States have confirmed the EU is willing to build the trans-Caspian link so that they can buy gas at the Turkmenistan border. In closing, Ferrero-Waldner thanked the U.S. for supporting EU efforts on energy security and called for greater U.S.-EU cooperation and information sharing going forward.

HIGH REPRESENTATIVE SOLANA'S CABINET

¶7. (SBU) Ambassador Morningstar met on April 22 with Steven Everts, Energy Advisor to High Representative Javier Solana. Everts began the session by noting that the U.S. and the EU have already been working well together on energy security and that Solana would like to work as closely as possible with the U.S. on this issue. Everts noted that energy security is rising to the top of the EU agenda. He said the EU is doing a lot of good things on the internal market such as: getting agreement on the third energy package, and getting agreement on using recovery funds for gas and electricity interconnections. These things are very important for the EU's energy security. He pointed out that energy security is becoming a more prominent element in the EU's external relations and it is becoming part of the high level political dialog, with Ministers discussing diversification. He added that interconnecting the internal market is also very important because that is where the rate of return is greatest.

¶8. (SBU) On Ukraine, Everts said the EU has proposed to upgrade and modernize their gas transit system if Ukraine will carry out reforms in return. He noted, however, that it is not easy to negotiate with Ukraine because of the

extensive infighting in the government which he characterized as "very regrettable for their country." Everts emphasized that the EU has no alternative, but to engage with Ukraine. To do so, however, the EU needs to hear the same message from both Prime Minister Timoshenko and President Yushenko. On ways the U.S. and EU could work together on Ukraine, Everts cautioned "Don't make it heavy." Everts said the U.S. and EU should work to informally exchange information and make sure we choreograph our messages to Ukraine so that they are similar.

¶9. (SBU) On Turkey, Everts emphasized that EU-Turkey relations have to be put in the broader context. He noted that the EU accession issue is very complicated and the EU has difficulty opening certain chapters, notably the Energy Chapter. He continued that inside Turkey things are also not so easy because of EU-NATO questions, Erdogan-Gul questions, and a number of other issues. On top of this, he said, we have the Turkey-Armenia aspect and Azerbaijan is very upset over this. Everts said the Turks have interpreted President Ilham Aliyev's trip to Moscow as a bluff. Everts, however, believes something is really happening on the Russia-Azerbaijan front. He noted that the EU strongly supports Turkey-Armenia rapprochement and efforts to find a settlement on Nagorno-Karabakh issues.

¶10. (SBU) Everts believes there is a limited window to move forward on opening accession chapters with Turkey before the end of the year, or things could get much more difficult. At the same time, he argued, Turkey has to realize that it's difficult to be an energy hub if there is no gas to flow through. He characterized the situation as "pretty serious but not irretrievable." He said that it is important for the EU and the U.S. to convince the Turks that Azerbaijan is not bluffing. Everts confided that the Commission thinks the Turks are serious about signing an intergovernmental agreement (IGA) on Nabucco by June, but that an IGA alone will not get the pipeline built. There also has to be an agreement between Turkey and Azerbaijan on transit. We need

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a constant drip of positive news to move forward. Time is not neutral here, and unfortunately Turkey appears to take Azerbaijan for granted.

¶11. (SBU) On energy relations with Russia, Everts noted that engagement is good, more discussions are good, and that the EU should be willing to discuss their energy security ideas, but Russia has to realize the EU is quite attached to the principles in the Energy Charter Treaty. The EU is reluctant to just throw that agreement out the window. He acknowledged that Russia feels the existing document does not fit them. He said, however, the EU has to work from where it is now. The EU can move beyond the Energy Charter and is ready to talk principles, but he argued that the principles in the Energy Charter treaty should be used as the starting point. Everts emphasized that principles are good, but they must be monitored and implemented. "Principles, dialogs, cooperation, monitoring, these are all tools to promote trust." When Ambassador Morningstar queried about the possibility of bringing the Russians in to a test project, not to control, but to contribute, Everts agreed and said the best test case would be Ukraine. He argued the Russians have to be involved in Ukraine. He said Russia has to play a role there, not a controlling role, but a role.

PRESIDENT BAROSSO'S CABINET

¶12. (SBU) In a one-on-one meeting with Joao de Vale Almeida, Barroso's Chef de Cabinet, Ambassador Morningstar discussed the idea of looking for ways the U.S. and the EU can work together on energy. They discussed the possibility of establishing some form of meaningful high-level U.S.-EU dialog on climate and energy and agreed to talk more in the future and further pursue these ideas.

¶13. (SBU) The meeting with Vale Almeida was followed by one

with Matthew Baldwin, Barroso's energy advisor. Also present were Fernando Andresen from Barroso's Cabinet, Emma Udwin from Commissioner Ferrero-Waldner's Cabinet, and Roland Kobia, from Energy Commissioner Piebalgs' Cabinet. Baldwin began by acknowledging that when it comes to energy security the interest of the EU and the U.S. are not identical. He said that this is not a bad thing, just something we have to recognize. Energy security means different things to the U.S. and the EU. For the EU it is "Keep the bloody gas flowing!" He noted that there is no clear cut competence for the EU on external energy policy, but during the Russia-Ukraine crisis none of the Member States objected to the Commission playing an active role to resolve the crisis, and even the Germans agreed to stick to the EU line: "You are both at fault, reconnect the gas!" The U.S., Baldwin said, views energy security on a much wider basis.

¶14. (SBU) Baldwin said that the U.S. and the EU need to keep each other closely informed. He noted that there is a lot more scope for cooperation at the government to government and company to company levels. He emphasized that it is very useful for the EU to hear what other countries tell the U.S. about EU relations. He cited as very useful and very important the message the U.S. passed to the EU that Azerbaijan really wanted to hear from the EU and that they did not feel like they were getting the attention they deserved. He added that the U.S. and the EU also have to look at our policies on climate change and how they support each other.

¶15. (SBU) On Ukraine, Emma Udwin pointed out that "when we talk about Ukraine there are broader issues," noting that the Eastern Partnership has a strong energy component. She argued that energy relations with Ukraine cannot be seen in isolation. She said that the EU and the U.S. need to deliver the same messages on Ukraine's quality of governance and lack of transparency.

¶16. (SBU) Baldwin noted that the May 8 Prague Summit could be very significant. He said that unlike most declarations that start out strong and get watered down, the Prague declaration draft start out relatively weak and got stronger. If it is signed in its current form, Baldwin believes it would be very significant. Baldwin said that the EU is concerned over the way Turkey has interpreted President Obama's visit. He said the Turks read the President's

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message as "we are much stronger now with the U.S. and at the end of the day the U.S. will fix our EU accession problems." Baldwin said it would be helpful if the U.S. disabused Turkey of this notion. Baldwin said he really thinks "this is the moment" for Turkey. He cautioned that he sees increasing concerns from producer countries that are getting extremely impatient with Turkey.

¶17. (SBU) Roland Kobia characterized Turkey's position as "unclear and moving." For example, he noted that at one moment Turkey's 15 percent off-take demand will be off the table and then in the next moment it is back on the table. Fernando Andresen added that Turkey sees transit negotiations as intricately linked with EU accession. He argued that the EU and U.S. need to convince Turkey that this is not the case. He noted "We have an accession process underway. Let's not kill the process." Emma Udwin opined that the U.S. and the EU have a sense of urgency on the Southern Corridor, but Turkey does not. She noted Turkey does not believe the EU has other options. She said what Turkey needs to understand is that the EU is serious about the Black Sea option to bypass Turkey for gas transit. They also need to understand that Azerbaijan is not bluffing about selling gas to Russia or just leaving it in the ground. Ambassador Morningstar pointed out that we need Turkey to see Turkey's own interests. Turkey has an important self interest in seeing gas from Azerbaijan, Turkmenistan, and Iraq flowing west through Turkey. Ambassador Morningstar noted that the

important question for Turkey is: "Does Turkey really want to make itself more dependent on Russia?"

¶18. (SBU) Moving to the question of relations with Russia, Baldwin cautioned that it is a great mistake to see Russia as monolithic. Baldwin characterized Putin's actions during the gas crisis as "unspeakable." At the same time, he acknowledged that Gazprom's desire to deliver gas as close to the customer as possible (Nord Stream) is a sound commercial approach. He said it makes sense for Gazprom to want to avoid Ukraine. Baldwin said that the task for the EU and the U.S. is to identify who in Russia is trying to do business and who are the bad guys.

DG-ENLARGEMENT

¶19. (SBU) In an April 22 meeting with Michael Leigh, Director General DG-Enlargement, Ambassador Morningstar noted that in terms of enlargement ramifications one issue that keeps coming up in discussions on energy is Turkey. Leigh noted that his DG is not directly involved in pipeline issues but is interested and actively involved with Turkey. On opening the Energy Chapter Leigh said the formal vie is there is no link between the Energy Chapter and getting a deal on gas transit. As such, Leigh said the EU is in an embarrassing position. The EU should be ready to open the Energy Chapter based on Turkey's actions, impact assessments, etc.; there is no reason not to. But, Leigh said, "we have a problem with a certain Member State (Cyprus)." Leigh said the EU is actively looking for a way out of this impasse, and the message they consistently deliver to the Turks is that the EU does not accept the linkage between accession and gas transit. He said the EU is looking for a formula that meets Cyprus's concerns.

¶20. (SBU) Leigh acknowledged that Turkey has valid reasons to be concerned about opening the Energy Chapter, but believes their concerns are totally out of proportion. While doubtful the EU will succeed, he said the EU is making every effort to get a solution by June. Leigh characterized the situation as highly politicized. He said the Cypriots have outraged the Turks over boundary issues. The Turks see this as a border dispute and consider themselves wronged. Turkey takes this very seriously. Leigh said it would be helpful if the U.S. would urge Turkey to be as flexible as possible. He said he is hoping for an accession conference in June at which the Energy Chapter could be on the agenda.

¶21. (SBU) Leigh noted that Turkey believes the EU is not really engaged, and the Turks portray themselves as playing an "alternative role", providing an alternative vision, which plays well internally. Leigh cautioned that the areas for negotiation have narrowed. "There is a real risk we could get to the next accession conference and have no chapters to

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move forward on." On the energy chapter, Leigh admitted the EU is at fault, but on the other two chapters under discussion he said the fault lies with Turkey. He noted that Turkey has not fully carried out its obligations, especially regarding Cyprus.

ENERGY ROUNDTABLE

¶22. (SBU) On the morning of April 23, Charge Murray hosted an Energy Roundtable with representatives from Brussels-based think tanks and EU Commission officials. The debated centered on an exchange of views on energy security and European needs/policy, especially regarding Central Asia, the Middle East, Russia, and Iran. Once again, a large part of the discussion focused on Turkey's role and the associated problems with European integration. Participants called for the U.S. help to persuade Turkey to be more flexible on gas transit.

EDISON CEO QUADRINO

¶23. (SBU) On April 23 Ambassador Morningstar met with Umberto Quadrino, CEO of Italian Edison. Quadrino noted that

despite the current economic slump, Europe does not have enough gas supply. Europe cannot reduce its dependence on Russia with current alternate suppliers such as North Africa.

As such Europe needs the Southern Corridor along with more LNG import facilities.

¶24. (SBU) Quadrino characterized gas from Iran as a huge question mark. He said that getting gas from Iran would require huge infrastructure investments, noting that you would need a very high gas price to justify building a 3000 kilometer pipeline. He noted there is a lot of gas available on the other side of the Caspian, but you first have to solve the issues of Caspian delimitation and even then gas wouldn't be available until the 2015 to 2020 timeframe. Quadrino argued that only TGI (sponsored by Edison) and first phase Nabucco would work in the short term. He noted that with TGI, Bulgaria could be linked-in easily through Greece. The Greece-Italy and Greece-Bulgaria connections could be built first. Later you could connect Romania and Bulgaria. Once the gas is in Italy, you could also swap with other countries in Europe. Quadrino argued that TGI would add to overall European supply.

¶25. (SBU) Quadrino said that the problem with Turkey is that they want an above normal benefit from gas transit. He said Azerbaijan views the current gas price deal with Turkey as an insult. Azerbaijan will not negotiate with Edison on the pipeline until the transit fee for gas is fixed. Turkey wants transit first, price later and will not budge. Quadrino argued that Turkey is trying to get too much and trying to play the same game as Ukraine. Turkey can't decide whether it wants to be in or out of Europe.

DG-TREN

¶26. (SBU) In a April 23 meeting Matthias Ruete, Director General for DG-TREN, told Ambassador Morningstar that European energy policy and integration still has a long way to go. Europe still does not speak with one voice on external energy policy. Ruete noted that this changed somewhat with the Russia-Ukraine gas crisis when EU gas companies came to Commissioner Piebalgs and Ruete for solutions, not to their national governments. Internally, Ruete noted that the EU is still working on developing a common market for gas and electricity, but is getting there.

¶27. (SBU) Ruete noted that the way Russia treats different Member States creates different attitudes toward Russia within EU. He said the challenge is how to develop a decent, meaningful relationship with Russia, particularly on energy. With Russia, Ruete noted that everything hinges on energy. The EU is extremely dependent on Russia for energy: oil, gas, and electricity. Many new Member States also depend on Russia for nuclear fuel supplies. Ruete opined that if Europe could turn elsewhere Russia would go under, but Europe is too dependent to be able to turn away.

¶28. (SBU) On the Southern Corridor Ruete said that the question of gas transit through Turkey needs to be sorted out. He said there are a lot of issues to be worked out with Turkey and noted "Turkey plays a good game." Ruete argued

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that Turkey has to decide whether it wants to tie itself to Europe or to Russia and/or Iran. Turkish relations with Azerbaijan will also play a central role.

¶29. (SBU) On the question of how to intensify transatlantic cooperation on the energy and climate change nexus, Ruete said he would like to see a more serious element in discussions with concrete results. Ruete said that there are so many levels and fora for cooperation (IEA, nuclear, biofuels strategy, etc.) with a huge agenda that makes our discussions thin rather than deep.

¶30. (SBU) Ambassador Morningstar cleared this cable.

Murray

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